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Dear Jon,

I am writing on behalf of ESP Electricity Limited ("ESPE") in response to Ofgem's "Getting more out of our electricity networks by reforming access and forward looking charging arrangements" consultation paper, dated 23 July 2018.

ESPE supports Ofgem's proposal to review the access and forward-looking charging arrangements under a Significant Code Review ("SCR"). The work completed by industry and Baringa to date clearly supports the case for change. However, ESPE is concerned that Independent Distribution Network Operator ("IDNO") charging arrangements have not been considered in this consultation. The proposed work programme will have a direct impact on IDNOs and competition in connections, and it is not clear how this will be addressed in the work to be taken forward.

The proposed reform covers a complex and potentially contentious set of issues. Splitting the leadership of the work programme between Ofgem and industry under these circumstances could duplicate resource and make it more difficult for industry to engage with the reform, which would exacerbate and/or delay the resolution of network charging issues.

Network charging arrangements for the 'last mile'

The issues identified in the consultation paper are not new to industry. The Distribution Charging Methodologies Forum ("DCMF") initiated a review of the distribution charging methodologies in 2015, which identified five areas that require specific review to improve the Distribution Use of System ("DUoS") charging arrangements. IDNO charging issues, such as the treatment of indirect costs in the CDCM and PCDM, and the identification of new data sources, were grouped and identified as a specific 'area' that should be taken forward under the proposed work programme. This work was subsequently placed on hold as Ofgem identified a need for co-ordination of charging programmes across industry.

Two years has since passed, and ESPE is disappointed that IDNO charging arrangements have not been considered, or at the very least, mentioned in Ofgem's consultation paper. Whilst we appreciate the need to prioritise issues at a holistic level, any proposed changes to DUoS and access arrangements could have a significant impact on IDNOs and IDNO connected customers.

Baringa's analysis paper "Assessing the current issues with electricity network access and charging" did identify IDNO charging arrangements as a current issue. However, the issue was de-prioritised as Baringa could not access the information required to complete the impact assessment, and the number of customers connected to IDNO networks was considered to be "proportionately low". We do not support this decision or agree with Baringa's justification. The analysis paper does not explain what information Baringa requires to assess the impact of IDNO charging arrangement issues, or why the information was not available to Ofgem.

In light of the continued growth of the IDNO market, and Ofgem's vision to support new technologies and services, we encourage Ofgem to consider how issues with the current IDNO charging arrangements can be addressed, or at the very least, not exacerbated by the proposed work programme, and to do so now, at this critical point in the process. Retrofitting any new charging arrangements to accommodate IDNO charging arrangements will introduce unnecessary risk and complexity that is unlikely to benefit customers. It is important that customers receive cost reflective price signals regardless of whether they are connected to a DNO or IDNO network.

Proposed scope of the SCR

While we appreciate some changes may be brought forward if they sit outside a SCR, we are not convinced that industry would be in a position to engage with two parallel work programmes effectively. Co-ordination is key to the success of any charging reform. As such, we encourage Ofgem to carefully consider lessons learnt from other industry change programmes, and how it will engage with industry throughout the reform to ensure smaller participants are able to contribute effectively.

ESPE agrees that the reform will need to be driven by industry, and that the taskforce approach under the CFF was successful. However, given the number of stakeholders directly impacted by the proposed reform, we believe it would be more efficient for Ofgem to lead the reform centrally under a "comprehensive SCR". The 'Access' and 'DUoS' workstreams are intrinsically tied; delegating the review of allocation of access rights to DNOs and the ESO will introduce unnecessary risk and delay to the reform (e.g., timing discrepancies, duplication of resource, miscommunication risks etc), for no clear benefit to industry, or more importantly, customers.

If a decision is made to proceed with the 'Narrow' or 'Moderate' SCR approach, a high level project plan must be developed as a minimum to co-ordinate the work programmes and improve certainty for industry participants. If Ofgem is unable to provide the level of resource necessary to support the programme/s across industry, an external agency should be engaged as part of the SCR launch to provide this support.

Please see the attached appendix which outlines our views on the questions posed in your consultation document.

Yours sincerely

Victoria Parker
ESP Electricity Limited

Appendix: Answers to Ofgem's Consultation Questions

Question 1: Do you agree with the case for change as set out in chapter 2?

Please give reasons for your response, and include evidence to support this where possible.

Yes; the charging arrangements require a fundamental review, as originally identified by the DCMF. The distribution system has changed significantly since the distribution charging methodologies were first developed, and we believe the 500MW model & service models need to be reviewed in light of this.

We also agree that some users do not face the true costs they impose on the system, and that this needs to be addressed in the charging arrangements.

Question 2: Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.

Yes. Firmness is a key issue for many customers, and whilst we appreciate the driver behind flexible connections, this solution may not be appropriate for all customers. We are concerned that Ofgem has not recognised IDNOs in this consultation paper, and do not believe IDNOs should be grouped together with other 'large users' (by default) given our licence obligations. Access rights for IDNOs and Private Networks must be considered as part of this review to ensure any new arrangements are fit for purpose in the connections market.

Question 3: Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:

- a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?**

This should be considered, but we are not convinced that customers will be exposed to a price signal that will encourage them to 'choose' a different capacity option. Ultimately, the party with the direct relationship to the customer will choose this on behalf of, or in negotiation with the customer. It is unclear how the party could verify whether a customer with an EV, heat pump, and battery has breached the capacity agreed when behind the meter generation is installed. Further to this, what is their incentive to stay within the agreed capacity? Network charges are only one component of the customer's final bill, which they may or may not have visibility of.

- b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?**

Firmness

The development of the proposals into the review is broadly welcome. However, this proposal will be challenging, and will require careful project design –

- Consumers are likely to think they have firm capacity and that they have already paid for it.
- As recognised in 3.7, the whole point about an essential service is that demand is inelastic. Any movement away from the natural time of consumption could have negative welfare consequences for some groups of consumers, in particular those in vulnerable circumstances.
- Building upon the point above and as alluded to by Ofgem in 3.8; the consumers most likely to benefit from the proposals are those with smart phones, smart devices and some form of distributed generation. Those least likely to benefit are those who cannot afford smart devices or shift their demand.
- It is likely that networks will not easily be able to distinguish between the customer groups mentioned above.

Time of use

We would support the investigation of access rights based on time. Time of use tariffs are the technically correct solution to the problem of congestion and are likely to be efficient for connection queues. It follows that any solution that reflects this is likely to be efficient, though the redistributive issues identified above remain.

c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?

We agree with the thinking behind these options, we would again point out some real challenges in regulatory design that may have an impact on the project and its delivery.

Duration

Larger users of energy such as light manufacturing, run to their order book. This is likely to be highly specific to the site itself and the economics of the industry it operates in. It might therefore be difficult for consumers to choose a fixed menu of options e.g. five, ten or twenty year firmness. Any design that includes capacity products would have to consider this issue and consider how a user might change from being highly flexible to highly inflexible.

Depth/ local access

We agree with Ofgem's conclusion to use a charging based approach. Making the distinction between shallow or local access is theoretically appealing, but it will be difficult in practice for networks to identify circuits with peer to peer local trading that may not benefit from reinforcement of higher voltage circuits.

d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

Opening the review up to transmission would introduce a high degree of complexity and may compromise delivery.

Question 4: Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.

We broadly agree with the contents of table 1. The assumption behind the table does not appear to be sensitive to the degree of flexibility and time scales involved in commissioning new connections or capacity for the networks.

Option value of connection

We would suggest that there is an *option value* in having a connection for times when battery storage runs out, there is no wind in a region or locality, or solar radiation is low. This could be explored by the review.

Question 5: Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:

a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?

We agree that better management systems could speed up connection for new developments. If the review was taking account of the wider benefits of the connection to the economy (including employment, industrial redevelopment or housing issues), a wider welfare test may favour different projects; two connections with the same capacity will have different impacts on the economy.

b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?

We agree and would add that the use of auctions will not necessarily benefit consumers when the product bid for is an essential service, and the service provided is by a monopolist.

c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

The consequence of conducting a review will have some impact on access rights if they are inefficiently allocated at present. However we have already suggested that three issues pose a challenge for the project-

1. Consumers may feel they have a firm connection and have already paid for the networks over the life of their connection.
2. The distributional impact of capacity reallocation could clash with social policy objectives.
3. Networks may have difficulties in identifying different consumer groups.

The review must carefully consider the management of these issues. It may be that a certain amount of grandfathering of rights for existing connections and different rights to new connections may be the fairest way to deliver the project in the timescales envisaged by Ofgem.

Question 6: Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.

We agree; however, greater transparency will be required to enable industry to engage with the forthcoming DUoS review.

Question 7: Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.

No; both should be reviewed in light of Baringa's report.

Question 11: What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.

ESPE's preference is for an Ofgem led review - SCR Option A. As detailed in our cover letter, we believe Option A will:

- Ensure workstream interdependencies are managed.
- Improve certainty for industry participants.
- Minimise the likelihood of project delays.
- Enable smaller industry participants to engage with the reform.

Most importantly, Option A aligns with the stated purpose of the SCR; the SCR process is an ideal way of cascading a high level policy review with the potential for detailed changes to the industry codes. The role of the SCR is to investigate “**wide ranging and holistic change** and to implement reform to a code based issue”¹. Options B & C do not align with this, and would introduce greater risk of ineffective policy design.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

Yes; Ofgem should lead the development of policy via the SCR, and licensees should be responsible for raising the required modifications to give effect to the policy. While industry is best placed to raise the required modifications, we believe Ofgem should retain responsibility for overseeing the implementation phase, or the role of 'project manager', to ensure the reform is delivered on time.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not?

We believe Ofgem should lead the review, as per our cover letter. The ESO & DNOs are already obliged to ensure charging arrangements are cost reflective. If Ofgem believes a new licence condition is required to ensure this work is delivered, we would argue that the best way to mitigate the risk of 'non-delivery' would be to lead, or at minimum, co-ordinate the work programme.

¹ https://www.ofgem.gov.uk/system/files/docs/2016/06/scr_guidance.pdf

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

The timelines are ambitious, but we are supportive in principle. The review of forward-looking TNUoS charging could stall the wider work programme, and as such, we believe the cost/benefit case for inclusion would need to be compelling.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

We strongly support the continuation of the CFF and CDB. However, representation on the CDB will need to be reviewed. As noted in our cover letter, splitting the reform into two separate work programmes will make it more difficult for smaller participants to monitor and engage with the reform.